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MART

BUSINESS IDEAS FOR TODAY'S RETAILERS AND DISTRIBUTORS

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VIDEO HARDWARE

HOME ELECTRONICS

RETAILING

HITTING WARP SPEED:
Computers Take Retailers to New Heights

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INSIDE:
Kitchen & Bath Show Appliance Supplement

MART
Business Ideas for Today's Retailers and Distributors

4
Just a minute!

RETAILING

5
Cover story: Hitting warp speed with computers
Retailers are spending more money than ever to process information, especially in the area of inventory control.

8
CMC's new look knocks 'em down
Customers said CMC looked outdated, so the St. Louis-based audio/video chain spent six months polishing its image.

APPLIANCES

Following page 8...
K/BIS Appliance Supplement
MART's special Kitchen/Bath Industry Show supplement zeros in what the major appliance manufacturers are up to.

Cover Design by John Angelini
Photograph by von Hoffman
Backdrop by Charles Broderson

11C
Show preview: Biggest and busiest
This year's K/BIS is likely to be the largest ever, with 492 exhibitors and 30,000 showgoers expected to attend.

12D
White takeover raises questions
Industry reacts to the Electrolux buy out; WCI execs buoyed by takeover.

14F
On the cover: 'Dream' kitchen comes alive
Noted designer takes readers through MART's featured kitchen.

20L
Legal spat over: KitchenAid aims high
Company prez says they can move a lot faster with Whirlpool on their side.

What's new **18J**
People **21M**

HOUSEWARES

25
Spring 'Idea Show' last of its kind
The Int'l Housewares Exposition in Chicago convenes for the last time under the old format. For the fall show, exhibits will be grouped in product categories for the first time.

HOME ELECTRONICS

26
Stereo TV gains sound footing
RCA exec dubs '86 the breakthrough year for TV that sounds as good as it looks.

27
Kodak prints negative picture
Their bottom line may be sagging, but Kodak execs remain confident in the wake of the Polaroid crisis.

29
Typewriters spell an end to typos
A rundown of the latest electronic machines and the many features they offer.

People **28**

BPA
ABP

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Reaching new heights with computers

Retailers are spending more money than ever before on information processing and looking to computers to help manage rising inventory costs

Dave Wahlberg, vice president of MIS, The Federated Group.

A subtle battle is brewing on the retail front. Like generals of wars past, today's retailers are engaging in a form of strategic warfare — using sophisticated information processing systems to maximize competitive position.

The computer is fast becoming the most formidable of weapons in the retailer's arsenal. In fact, retailing experts and systems managers say the difference between marginal success and winning big could be just a byte away for many retailers.

A recent study by Arthur Young, an international accounting and consulting firm, illustrates that use of computers in retail operations is progressing far beyond basic accounting. Computerization has become a top priority for our nation's retailing force — especially in such critical areas as inventory control.

Specialty and department stores, for example, substantially increased their computer-related expenditures in 1983 and 1984, according to the survey. Both types of retailers funneled 1.06 percent of their annual sales into information processing, compared to 0.86 for all survey participants. And on the average, spending on information systems increased 19 percent in 1984 over the previous year.

The survey culled responses from 111 retail organizations, including mass merchandisers (30), department stores (18), specialty stores (51) and combination/grocery stores (12). Combined, the participating retailers operate 25,249 outlets and report annual sales that total more than $57 billion.

The most prominent trend in retailing to emerge from the study is the use of computers to help manage escalating inventory costs. More than half of all participants targeted inventory control and stock replenishment as areas of development or improvement over the next two years. And in the specialty store category, 75 percent of those surveyed indicated such plans.

"Inventory control is where retailers are really getting the most bang for the buck," says Frank Andrews, manager of retail consulting for Arthur Young. Smaller specialty retailers, especially, are stepping up efforts in this area largely because so many turnkey hardware/software packages are available today at reasonable prices, he observes.

Al McCready, director of retail consulting at Arthur Young, adds: "If a computer can help a retailer spot emerging sales trends, the retailer can avoid understocking merchandise and losing sales, or overstocking and bloating inventory carrying costs. When a store can do this twice as fast as its competition, it's at a big advantage."

Retailing pundits surveyed by MART pinpointed several key ways in which computerized inventory systems are helping today's retailers: 1) responding to trends; 2) reducing inventory investment and increasing turns; 3) reducing operating costs; and 4) increasing productivity.

The Federated Group, a 59-store California-based consumer electronics chain with $364 million in annual sales, provides a shining example of how computerization can be a boon to

Large chains require special computer ammunition

Large volume chains have their own unique set of requirements when it comes to deploying computer systems as strategic and competitive weapons.

"A specialty store is a smaller entity with all of the administrative carryovers that you have in a larger retail environment. And yet you don't have the staffing or same level of funding for data processing as the large retailer," explains Terry Kelley, MIS director for Circuit City, the Richmond, VA-based consumer electronics/appliance chain.

"So, you have to come up with more innovative system designs and hardware architecture to make the whole thing work."

The $700-million-a-year chain took a unique path to fulfill its information processing needs. "We have custom-built our own computer system for the stores, Kelley reveals.

Spending about $20,000 per store, Circuit City is in the process of outfitting each of its 69 locations with sophisticated cash registers and terminals that tell salespeople what's in stock at a given moment and what the current sale prices are. System components are manufactured for the chain by a number of different vendors, according to Kelley. Display screens, for example, are built by a Taiwanese company," he says.

These customized information processing components tie into a host site where sales information is analyzed, enabling Circuit City to tightly control its inventory and generate sophisticated reports.

"In my opinion, one of the most critical areas of retailing is inventory control," Kelley says. "A specialty store has unique requirements: First you have to distribute to a great many locations. And, typically, specialty stores have low storage space in the back room.

"The first strategic issue that information processing will resolve for a specialty store is getting the goods that will sell in a location that is able to sell them," Kelley explains. "You do that by collecting sales data at the point of sale and communicating the information back to a replenishing system that knows what's in your warehouse."

Like a growing number of retailers' computer systems, Circuit City's system automatically replenishes stock at the store level. "It's a dynamic, changing environment," Kelley observes. "But not every store is looked at for every product every day. The system takes care of that automatically."

Kelley believes computers are being more readily recognized as strategic weapons for today's retailers primarily because of the speed at which they control such important areas as customer service, inventory and distribution. "It's real simple," he says. "If you've got a fast, efficient system up and running you're going to be successful. If you don't, your're not." □

Total MIS costs as a percentage of 1984 sales revenue

	Sales			Type of Store					
MIS Costs	Under $100 Million	$100-500 Million	Over $500 Million	Mass Merch. Stores	Depart. Stores	Specialty Stores	Comb./ Grocery Stores	All Participants 1984	All Participants 1983
Under .25%	15%	11%	23%	13%	0%	10%	67%	16%	16%
.25-.49%	9	18	10	26	6	6	17	13	13
.50-.749%	6	11	35	19	6	19	16	16	19
.75-.99%	12	21	13	23	23	12	0	16	16
1.0-1.49%	35	29	16	16	53	33	0	27	28
1.5-2.0%	14	7	0	0	12	12	0	7	5
Over 2.0%	9	3	3	3	0	8	0	5	3
1986 Average MIS costs a % Sales	1.04	.84	.67	.67	1.06	1.06	.23	.86	
1983 Average	.93	.82	.64	.66	1.01	.97	.22		.80

Source: Arthur Young

New software directory on line

A dramatic proliferation of retailing-specific software packages has prompted the National Retail Merchants Association to publish a sequel to its popular software directory.

Since the original book was published two years ago, software houses have introduced hundreds of programs targeting specific aspects of retailing.

The new "Directory of Software for Retailers No. 2," which features more than 800 packages from some 200 vendors, is the only one of its kind, according to John Chay, NHMA's vice president of information services.

"The first edition was probably one of the best selling books in NRMA's history," Chay observes. "We conducted the study because we were bombarded by requests from retailers: 'Where do I find this kind of software; where do I find something that will work on my Hewlett-Packard?; and so on."

The update directory is divided in three sections — main-frame, mini- and micro-computer software — and provides detailed descriptions of programs. Comprehensive cross referencing is offered within 20 different application areas and for many specialized categories of merchandise.

Developed by Coopers & Lybrand, an international accounting and consulting firm, the guide costs $39 for association members and $65 for non-members. For more information contact: NHMA Publications Department, 100 W. 31st St., New York, NY 10021. □

the bottom line. Consistent with the survey's findings, the chain's computer-related expenditures are on the rise, according to Dave Wahlberg, vice president of MIS (management information systems).

A progressive company when it comes to computers, Federated is continually investigating new ways to get the most from its computer network, but Wahlberg says the emphasis is on inventory control.

"Our automatic replenishment system takes the worry out of getting the right product to the right store at the right time," he explains. "Each night the computer takes a look at what the stock level is in each of the different categories of merchandise. If they need more merchandise, we create automatic transfer of that merchandise."

Terry Kelley, MIS director for the Virginia-based chain Circuit City, stresses that time is of the essence in getting merchandise from the warehouses to Circuit's 69 stores. The consumer electronics/appliance chain does $700 million a year in sales.

"The secret to retailing is very simple: The idea is you buy the goods from the manufacturer; get it to the store and sell it before you have to pay the manufacturer," Kelley says. "If you learn how to do that, you're gonna make a lot of money. If you don't do that, you're going to pay a lot of interest and not make nearly as much money. The whole idea is speed."

Chains like Federated and Circuit City employ sophisticated cash registers, or point-of-sale systems, which facilitate the flow of sales information from the cashier directly to a computer either in the backroom or at the company's host site.

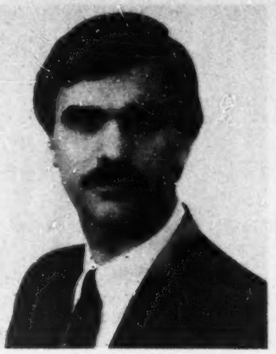
"We have the results of what happened in the store yesterday, this morning," Wahlberg says. "We're able to produce reports for people in the merchandising area so they know exactly what was sold."

Research on retailers' use of electronic cash registers recently conducted by Venture Development Corp. of Natick, Massachusetts, confirmed that today's retailers are more concerned now than in the past with gathering pertinent information at the point of sale.

"The trend is that retailers are not as interested in registers that do not have the option to communicate, even if they're not going to use that option immediately," says Leone Pease, a research analyst for Venture.

Andrews attributes this rise in computer consciousness to competitive pressures. "They (retailers) realize that if they're competition is reducing their expenses, improving merchandise selection and in-stock position because of automation, they have little choice but to also make that investment," he says.

Even small retailing operations with one or a few stores are using computers to gain a competitive edge. This is especially true in the world of video software where a large inventory of cassettes is typical.



Frank Andrews, manager of retail consulting, Arthur Young.

John Pough, owner of Video Cassettes Unlimited in Santa Ana, CA, uses Bonafide Management's Master Video system to analyze the sales and rental activity of his library once a week. Between the two stores he operates, he stocks about 14,000 video tapes.

Learning in a matter of minutes which categories are "hot" helps Pough sort through the 500 new titles that flood the market each month.

"We found that you have to be up on it," he says. "If *Rambo* starts to fall off and you have 50 or 60 (rental) copies, you have to start thinking about promoting them out the door for sale. To sit down and figure out what my customers are buying and renting by hand would probably take a day." □

Bob Ankosko

Sometimes the last thing you think about is who finances your inventory.